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May 20, 1999

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Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 - 12th Street, SW, TW-A325
Washington, DC 20554

RE: **CC Docket No. 96-262**, Access Charge Reform

CC Docket No. 94-1, Price Caps Performance Review
for Local Exchange Carriers

Dear Ms. Salas:

Today, I met with Tamara Preiss, Steven Spaeth, Jay Atkinson, Ed Krachmer, Florence Setzer and Dana Bradford of the Competitive Pricing Division to discuss the above-referenced proceedings. The attached material served as the basis for the discussion.

In the material entitled Switched Access Evolution, the data presented also includes corrections to the material submitted in an ex parte on April 7, 1999. Wireless minutes of use for 1997 and 2002 were lowered because the original data included all of the wireless minutes not just those associated with substitution for long distance/switched access. The 2002 CAP minutes of use was also lowered because the original data contained an error.

In accordance with Section 1.1206(a)(2) of the Commission's rules, an original and one copy of this letter and the attachments are being filed with your office for inclusion in the public record.

Acknowledgment and date of receipt of this submission are requested. A duplicate of this letter is attached for this purpose.

Please call if you have any questions.

Sincerely,



John Kure
Executive Director - Federal Regulatory

Attachments

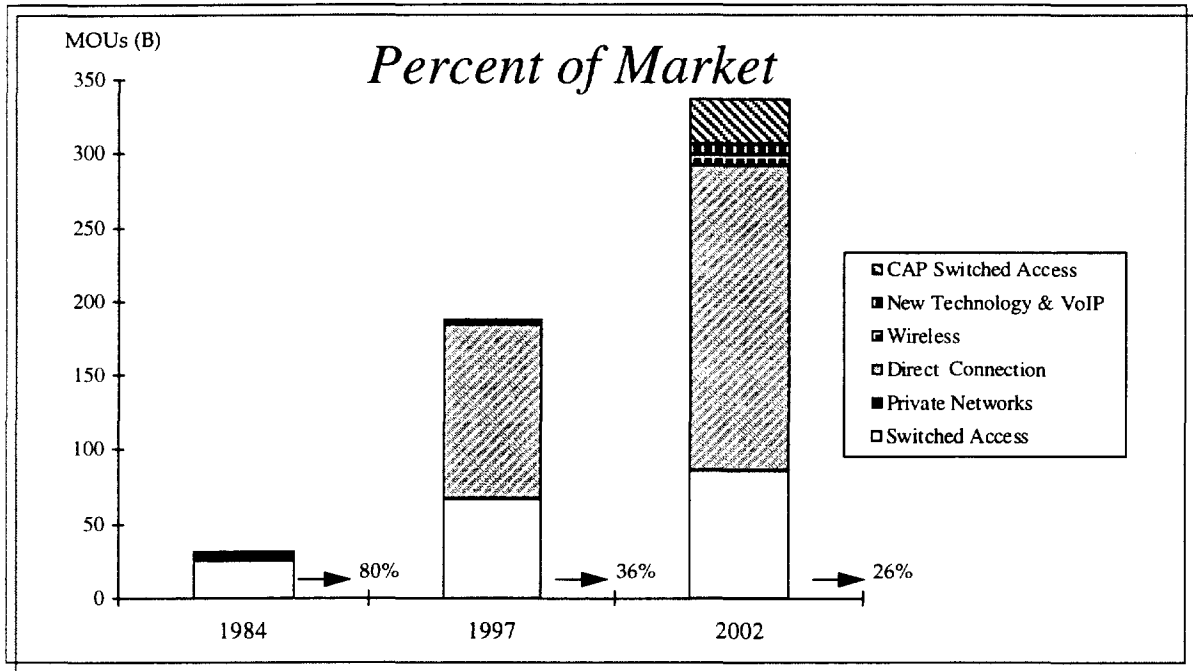
CC w/ Attachments:

Mr. Jay Atkinson	Ms. Tamara Preiss
Ms. Dana Bradford	Ms. Florence Setzer
Mr. Ed Krachmer	Mr. Steven Spaeth

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U S WEST
Switched Access Evolution

Switched Access Evolution



1997-2002 Traditional, USW Switched Access CAGR 5 %, Industry CAGR 13%

U S WEST Switched Access Evolution

Switched Access Evolution Development of Market Share Statistics

- **'84 USW had 80% share of the switched access market**

25.9 billion USW MOUs (USW billing system data)

2 billion Direct Connect (DC) MOUs (USW marketing estimate)

4.5 billion Private Network MOUs (USW marketing estimate)

- **'97 USW had 36% share of the switched access market**

67 billion USW switched access MOUs (USW billing system data)

116.8 billion DC MOUs

Quality Strategies (QS) calculated USW market share within the top USW 7 MSAs as 30.6% (USW MOU Track report, 4Q97). USW estimated its market share for the remainder of its serving territory as varying from 50% to 100%. USW used its 4Q97 billing system data, divided by its market share percentage to calculate the total switched MOU market. For the quarter, the total market's switched MOUs were estimated to be 46.8 billion, removing the USW MOUs (17.2 billion) and the CAP Switched Access (1.9 billion divided by four, see below) gives 29.2 billion MOUs. Multiplying by four to give 116.8 billion annualizes this.

1.9 billion CAP switched access

Another component, developed in the study by QS, was the CAP switched access market. According to the study, CAP switched access equals 1% of the total switched access MOUs. The 46.8 billion MOUs, discussed above, were annualized to 187.4 billion. This amounted to 1.9 billion CAP switched access MOUs for 1997 (1% of 187.4 billion).

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2 billion Wireless (displacement) MOUs

According to Peter D. Hart ("Survey on Wireless" 2/97) the toll displacement for 1997 represented 29% of the total wireless MOUs. 6.7 billion Wireless MOUs were recorded in USW in 1997. The Wireless MOUs is estimated by taking 29% of 6.7 billion MOUs. Also included is 31 million MOUs for primary line replacement, computed as 2% (USW estimate) of total access line counts, multiplied by the historic average MOU per line. The 1997 secondary line replacement wireless MOUs are also included and calculated to be 380 million using the same computation but with 11.2% of access lines which is based on a study conducted by BellSouth in 1998. The percentage used (11.2%) was mid-range between 8 and 15% in the study.

0.07 billion VoIP MOUs and New Technology

VoIP MOUs were estimated using a 10% USW market share from the 700 million U.S. VoIP MOUs stated in an IDC (International Data Corporation) Report #14857 dated 1/98.

It was not possible to estimate MOUs for other new technology in 1997.

Private Network MOUs

It was not possible to estimate the Private Network MOUs for 1997. There is no question they exist and provide a significant substitute for long distance and switched access.

U S WEST Switched Access Evolution

- **'02 USW will have 26% share of the switched access market**

86 billion USW switched access MOUs (USW internal estimate)

206 billion DC MOUs

Quality Strategies (1997 HICAP Market Growth Report) determined the growth rate for Highcaps to be 24% in our top 7 MSAs. USW estimated that 1/2 of that growth will be used to replace switched access. The DC MOUs were grown by 12% from 1997 to 2002 to obtain the 206 billion MOU figure.

6.6 billion Wireless (displacement) MOUs

The Peter D. Hart study, referenced in the 1997 figures, indicated that wireless toll displacement would grow to 45% in 2002. Using internal forecasts for the wireless traffic types shown above the displacement was calculated at 6.6 billion.

7.8 billion VoIP and New Technology

Internal forecasts were utilized to obtain the 7.8 billion VoIP MOUs, assuming zero recovery for switched access in the figure.

It was not possible to forecast the MOUs associated with new technology.

30 billion CAP switched access

CAP MOUs were calculated by internal estimates of line losses multiplied by the forecasted average MOU per line. USW analysis of expected switched MOU losses due to the AT&T and TCI merger are not included in this figure.

Private Network MOUs

It was not possible to estimate the Private Network MOUs. There is no question they will continue to exist and provide a significant substitute for long distance and switched access.

Switched Access in a Competitive Market

- *Pricing flexibility that shares the financial benefits with telecommunication providers who commit to retain and grow Switched Access MOUs on the public switched access network.*
- *Pricing flexibility that meets the customer needs like in a rational market.*

Switched Access Pricing Flexibility

Financial value based on telecommunication providers' commitment to use the public switched network.

Basic Volume and Term Commitment Plan:

Volume and term with market average MOU growth

Includes local competitor who resells USW finished services

Growth Option:

- Volume and term with an above market average growth commitment*
- Acknowledges value of those access customers that stimulate MOUs above market average*
- Includes MOU of those resellers of USW finished services*

Non-Volume/Term/Growth Rates:

- Tariffed rates with no increases if no further proscriptive measures*

Switched Access Pricing Flexibility Phases

Phase 1 (Immediately):

- *Affected market area - LEC chooses*
- *Expand volume & term concept to MOUs with an inclusion of growth component*
- *Volume/term/growth prices in price cap and earnings regulation*
- *Prices filed in tariff with cost support, 15 day notice*

Switched Access Pricing Flexibility Phases (cont'd)

Phase 2:

- Volume/term/growth prices outside of price caps and earnings regulation*
- Prices filed with no cost support*
- All other services remain available and capped in price assuming no other proscriptive measures*
- Filings effective on 1 day notice*

Phase 3:

- Services removed from price caps and earnings regulation*
- Permissive tariff filings for service made without cost support, 1 day notice*

Consumer Benefits

- *Encourages access providers to maintain services to low-volume end users to meet MOU commitment.*
- *Growth discounts benefit access providers of all sizes.*
- *Facilitates end users' choices of local competitor*
- *Provides opportunity for access provider to pass along financial benefits to end user.*
- *Commitment to grow access MOU, promotes long distance competition and facilitates lower prices to consumers.*
- *Utilization of the existing PSTN and its capacity allows for continued investment with the deployment of new technologies, while supporting universal access by consumers.*

Components of Volume/Term/Growth Plan

Parameters:

Volume Commitment

Term Commitment

Rate

True-up

1st Yr Shortfall

Early Termination

Growth Option: Commit to above average market growth then V/T/G rate.

Calculation:

Previous 12 mos MOU with: Qtrly, avg market growth rates yr over yr, for length of term

5 year

V/T rate applied monthly

Qtrly. If volumes not met, delta between commitment and actual MOU billed at V/T rate

Plan terminated and non V/T rates begin

Payment of MOU commitment for remaining of term based on a percentage which would be dependent on year leaving plan.